



**FINANCIAL MISSION:
MANAGE THE
GOVERNMENT'S FINANCES**

Financial Mission: Manage the Government's Finances

As the primary fiscal agent for the Federal government, Treasury manages the Nation's finances through collecting money due the U.S., making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. The bulk of the Department's resources are devoted to collecting taxes and customs duties. Treasury collects approximately 95% of total Federal receipts.

Financial Strategic Goals

- F1: Manage the Federal Government's Accounts
- F2: Ensure All Federal Payments are Accurate and Timely
- F3: Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards
- F4: Collect Revenue Due to the Federal Government
- F5: Cost-Effectively Finance the Federal Government's Operations
- F6: Improve the Efficiency and Production Operations and Maintain the Integrity of U.S. Coins and Currency

F1: Manage the Federal Government's Accounts

RESULTS

Treasury made significant improvements in managing the Federal government's accounts. It provided central payment services to Federal program agencies, operated the Federal government's collections and deposit systems, provided government-wide accounting and reporting services, managed the collection of delinquent debt, borrowed the money needed to operate the Federal government, and accounted for the resulting debt.

STRATEGIC GOAL OVERVIEW

The American public has the right to expect that the Federal government's financial management is cost-effective, efficient, and secure; employs modern technologies; and provides customer-centered service.

STRATEGIES/KEY MEASURES

Government's Daily Cash Position. To ensure that the government's cash management minimized risk and provided immediate flow and balance information, Treasury closely monitored the government's receipts and payments and estimated the amount of cash needed daily by the government for its anticipated payments. Effective management of the government's daily cash position reduced the government's borrowing costs.

Government's Financial Infrastructure. To strengthen the government's financial infrastructure and improve program management across government, Treasury continued to move the government to an all-electronic Treasury for making government payments and collecting government receipts. Treasury also continued to maximize the collection of government delinquent debt by improving its centralized debt collection services. In addition, a multi-year Treasury project has been revamping government-wide central accounting systems and processes for reporting budget execution information to improve Treasury's and Federal agencies' access to information, reduce redundant reporting, and eliminate time-consuming reconciliations.

Funds Management and Investment. Treasury ensured the effective management and investment of funds in its custody and managed the \$2.5 trillion Federal Investment Program, providing security investment services for more than 200 funds for numerous Federal agencies. In addition, the Secretary of the Treasury manages the investment of several of the government's largest investment funds, including Social Security, Highway, and Unemployment, which hold over \$1 trillion. For these funds, additional administrative and accounting services were provided on behalf of the Secretary.

PARTNERS

Federal Reserve Banks provide fiscal agent services to Treasury supporting the government's financial management responsibilities. Federal agencies are also essential partners in this function. Treasury works closely with the Federal Reserve Bank of New York to manage the government's cash. In addition, more than 10,000 financial institutions assist Treasury in collecting Federal revenues and private collection agencies help to collect delinquent debt.

NEXT STEPS

In connection with the Federal Investment Program, Treasury will develop and publish an operating circular to provide operational guidelines to program agencies managing Federal investment funds and to delineate between Treasury and program responsibilities. Treasury will continue to provide education and assistance to agencies with investment funds, and to assist in resolving issues related to the management and investment of funds administered by Treasury.

Treasury will continue to expand the use of electronic collection mechanisms, in part, to move funds more quickly to Treasury's accounts and to provide more timely information on Treasury's cash position. Continued improvements in government-wide accounting and financial reporting will require new and more effective means of fulfilling agency information needs through standardized data collection and reporting formats and Internet-based protocols.

F2: Ensure All Federal Payments are Accurate and Timely

RESULTS

Treasury issued over one billion paper check and electronic fund transfer (EFT) payments to more than 100 million businesses and people. Payments were on time and accurate 100% of the time. These disbursed payments were based on submissions from Federal program agencies responsible for certifying the accuracy, validity and legality of their payment requests.

STRATEGIC GOAL OVERVIEW

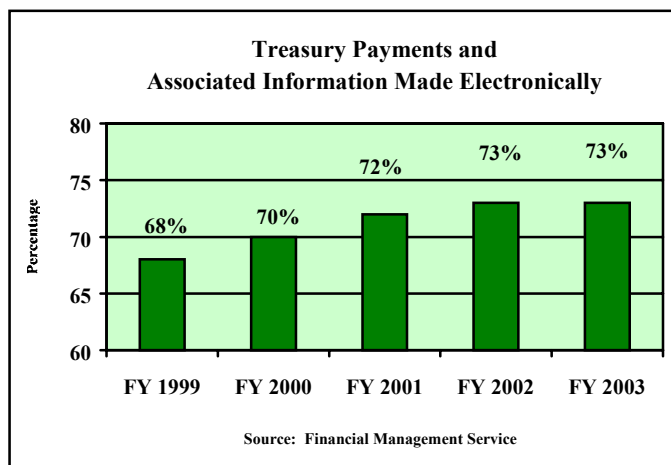
With Federal payments totaling over \$1.2 trillion annually, the reliable operation of FMS's payments function is an essential part of the economy of the U.S. Making these payments accurately and on time is of considerable financial importance to recipients, whether they are Social Security or Veterans' benefits, income tax refunds, vendor payments, annuities, or salaries.

STRATEGIES/KEY MEASURES

From Paper Checks to Electronic Payments. FMS continued to convert the Federal government's check payments to EFT, in accordance with the Debt Collection Improvement Act of 1996. For those individuals without a bank account, FMS designed the Electronic Transfer Account (ETA), a low-cost account that can be offered by federally insured financial institutions. As of October 29, 2000, nearly 600 financial institutions offered ETAs at more than 16,000 office and/or branch locations, an increase from approximately 7,000 locations at the end of FY 2000.

Move to an All-Electronic Treasury.

Treasury continued its efforts to determine the optimal payment-processing environment for the future in its move to an all-electronic Treasury for payments. The Electronic Money Program tested new payment and collection technologies using the Internet and card technology, as well as related technologies such as digital signatures and biometrics. Pilot programs were initiated to help Federal agencies modernize their payment activities, such as using stored value cards on military bases and in Government hospitals.



The percentage of Federal payments (excluding tax refunds) made electronically (i.e., by EFT) increased. Excluding tax refunds, which are not subject to the Debt Collection Improvement Act, the percentage of electronic payments was 72% in FY 2001 and is expected to continue to increase.

PARTNERS

Federal program agencies, recipients of Federal payments, consumer and community-based organizations, government vendors, the Federal Reserve System, and financial institutions are key partners in achieving this goal.

NEXT STEPS

Efforts to further increase EFT will include actively promoting low-cost ETAs among Federal benefit recipients who do not maintain a bank account, working through interagency forums to convert more Federal agencies' vendor and miscellaneous payments to EFT, and intensively publicizing the security, safety, and simplicity of receiving tax refunds electronically. In addition, FMS will determine and implement the optimal payment-processing environment for the Federal government.

F3: Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards

RESULTS

Treasury produced accurate and timely financial information. It issued the Financial Report (FR) of the U.S. Government in the March 31 statutory timeframe. During the year, Treasury's cash position and the Government's budget surplus and deficit information were reported on schedule and accurately 100% of the time in the following publications: Daily Treasury Statement, Monthly Treasury Statement, Treasury Bulletin, and U.S. Government's Annual Report.

STRATEGIC GOAL OVERVIEW

Treasury seeks to become a world-class financial manager for the Federal Government. The Department is working to produce financial statements and other reports that contain the information needed to manage programs effectively and to be accountable to the American public.

STRATEGIES/KEY MEASURES

Monthly Financial Statement Closing. Financial information is most useful when it is provided to program managers in time and in the form that is useful for decision-making purposes. The key strategy to achieve that objective was to close monthly financial statements within three days of month's end. By the first of September 2001, 11 of 25 Treasury bureaus and program offices achieved this strategy. This effort now serves as a model for all Federal agencies.

Federal Accounting Standards. Treasury, along with OMB and GAO, was a principal member of the Federal Accounting Standards Advisory Board (FASAB), which developed and issued three new accounting standards (for a total of 21 standards). Additionally, the American Institute of Certified Public Accountants recently recognized FASAB standards as "Generally Accepted Accounting Principles" or GAAP, which indicates that the Federal government's accounting is reported using standards with the same degree of acceptance as those used in the private sector.

Audited Material Deficiencies. A critical measure of good financial information is the number of material deficiencies identified by the auditor or GAO to a clean Financial Report audit opinion. Deficiencies remained constant at seven in the FY 2000 Financial Report. Not all these material deficiencies are within Treasury's purview to fix, as they are problems specific to a few key Federal agencies contributing information. The FY 2001 Financial Report of the U.S. Government has not yet been finalized.

MANAGEMENT CHALLENGES/HIGH-RISK AREAS

Preparing Reliable Financial Statements for the Government: Challenges continue in working with agencies to address the lack of sufficient systems, controls, and procedures to properly prepare the government's financial statements. GAO continued to work with Treasury, OMB, and key agencies to address these deficiencies, but it remains a significant challenge due to the government's size and complexity and the discipline needed to comply with accounting and reporting requirements. BPD, as it has since 1997, received unqualified opinions by outside auditors for annual financial statements representing nearly \$5.9 trillion in Federal Debt, as well as the financial statements for Loans Receivable, Federal Investments and Managed Trust Funds.

PARTNERS

In FY 2001, Treasury initiated a task force with OMB and GAO that issued recommendations designed to resolve the current audit findings on the FR compilation process.

NEXT STEPS

In FY 2002, FMS will implement the first phase of a multi-year project that will revamp the Government-wide central accounting systems and processes for reporting budget execution information. This initiative will improve data access, reduce redundant reporting, and eliminate time-consuming reconciliations, thus accelerating the timeframes for issuing year-end audited financial statements.

F4: Collect Revenue Due to the Federal Government

RESULTS

Although Treasury has not developed an outcome measure of progress in collecting all revenue due the government, there are indicators of progress in the efforts of the IRS, FMS and Customs.

In the collection of income taxes due, during FY 2001 both Net Revenue Collected (\$1,873 billion) and Total Enforcement Revenue Collected (\$33.8 billion) are indicators for the IRS. Treasury's non-tax delinquent debt collection program, administered by the FMS yielded almost \$3.2 billion net of offsets from the Tax Relief rebate in FY 2001, an increase of over \$530 million compared to FY 2000 collections. Customs collected 99% of the sum of the total revenue payment and net revenue underpayment.

STRATEGIC GOAL OVERVIEW

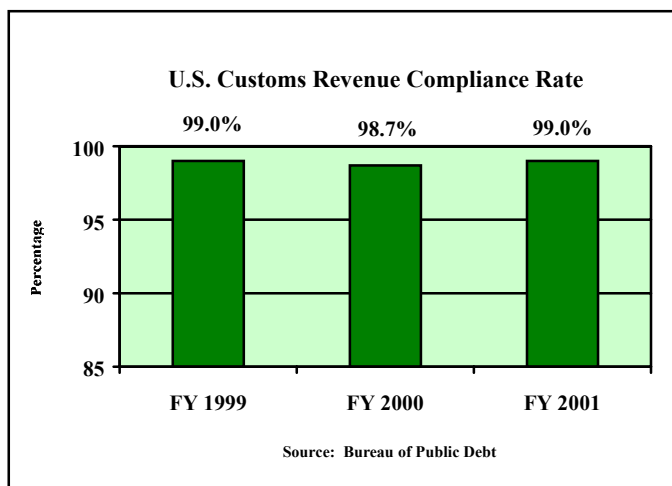
Treasury is responsible for the collection of approximately 95% of total Federal receipts such as individual and corporate income and other taxes, customs duties, fees, debts, and other money owed to the U.S. Government. Each year, the IRS collects \$1.8 trillion. Customs collects approximately \$20 billion and ATF collects approximately \$12 billion each year. The goal is to stimulate timely collection of all monies due the government consistent with good customer service and business efficiency.

STRATEGIES/KEY MEASURES

IRS Tax Collections. IRS targeted strategies to address non-compliance: the matching of information returns with reported income, minimizing tax filing fraud in Earned Income Tax Credits, reducing the pyramiding of trust fund taxes by businesses, and establishment of tax fraud detection centers in IRS service centers. Strategies to stabilize traditional income tax compliance activities include development of risk-based compliance intervention techniques, reengineering the collection and examination functions, and centralization of Innocent Spouse and Offers in Compromise activities.

FMS Delinquent Debt Collection. FMS has used two major strategies to improve the collection of delinquent debt. The first has been to provide centralized effective and efficient debt collection and debt management services to all Federal agencies, and the second, to work closely with Federal agencies to identify eligible debts and facilitate referral of that debt to FMS for collection.

Customs Revenue Gap. Customs improved data accuracy, availability, reliability and correcting automated systems weaknesses associated with revenue collection. The Customs revenue collection measure is calculated using the total revenue payment as a percentage of the sum of the total revenue payment and net revenue underpayment. The denominator of the calculation reflects the total amount that Customs could have collected if all imports were compliant in reporting applicable duties, taxes and fees.



PROGRAM EVALUATIONS

IRS. During FY 2001, the IRS conducted an assessment of their external and internal environments to identify trends, issues and problems effecting business operations and service delivery. Using that as a basis, IRS developed the strategies identified to provide guidance to its management in achievement of strategic goals over the next two to three years. Within each strategy are more specific operational priorities and improvement projects for key areas within the organization. The priorities and projects provide practical guidance on how the limited IRS resources are allocated and where management focus should be placed in order to achieve the IRS goals.

FMS. An August 2000 GAO report identified a number of improvements needed in the Federal delinquent debt collection program. As a result, corrective actions were taken by developing improved procedures to monitor Federal agencies' written plans for referral of delinquent debt to FMS for cross-servicing.

Customs. Customs has several evaluation programs that use to evaluate the effectiveness of Customs' programs. The programs include the Self Inspections Program, in which managers do a self-assessment of their methods, procedures and measurements; the assessments done by the Office of Internal Affairs, the Trade Compliance and Enforcement Plan, and the Commissioner's list, which requests that certain programs or areas be reviewed.

MANAGEMENT CHALLENGES/HIGH-RISK AREAS

Improving Earned Income Tax Credit Compliance (EITC): Achieving full participation by eligible taxpayers, ensuring compliance, and reducing inherent compliance vulnerabilities are high-risk areas. IRS will actively continue a three-part strategy to minimize risk: education and outreach, investigation of known fraudulent EITC claims and schemes, and the checking of secondary social security and identification numbers associated with a qualifying child by U.S. citizens.

Collect Unpaid Taxes: Traditional examination and collection activity have declined over the past several years. To offset this decline, IRS focused on risk-based compliance intervention techniques coupled with more focused and rapid intervention to improve the quality and speed of collection casework. To reduce pyramiding of trust fund taxes (taxpayer who fails to deposit and/or timely file and report the proper amount of withholding taxes for one or more consecutive tax periods) by businesses, the IRS focused resources on known areas of non-compliance. With the Department of Justice Tax Division, the IRS established a strategy to increase examination time of Partnership and Fiduciary return areas with abusive tax shelters and also a Trust Fund Compliance Initiative to test new re-engineered procedures for reducing pyramiding among in-business trust fund taxpayers in the future.

Taxpayer Protection and Rights: Legislative changes required by the Restructuring and Reform Act of 1998 (RRA 98) continue to have a profound impact on IRS. Most provisions, including training programs for thousands of employees, have been modified or implemented. Legislative proposals were submitted to the Senate Committee on Finance in FY 2001 to moderate RRA98's effect, and quarterly reviews, training, and certifications were completed to reinforce RRA98 reforms. These reforms will be tested over the next 2 years.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season: The filing season impacts every American taxpayer and is therefore a highly critical program. While major legislation (tax rebate) occurred in 2001, it did not happen during the traditional January to June filing season period. IRS delivered a successful filing season in 2001.

Providing Quality Customer Service Operations: Customer demand on toll-free telephone lines has not been satisfactorily managed. Among activities to address this, IRS increased the number of calls handled in an automated environment, routed calls to sites dedicated to specific types of work, and offered service during evening and weekend hours.

Impact of the Global Economy on Tax Administration: Significant improvements are needed in international compliance programs to focus on non-filing, transfers of assets by U.S. citizens to foreign trusts, foreign tax credit claims, and foreign-source income. In FY 2001, IRS formed partnerships with key internal and external stakeholders to address issues and provided guidance to the customer population. Included were projects with Australia, Canada, Mexico, and the United Kingdom that will continue in the future.

Modernization of the IRS Organization: A new organizational structure must be complemented with revamped business practices to better meet taxpayer needs. IRS made substantial progress in implementing a new modernized IRS organized around customers with similar needs. Although the modernized IRS organization was officially inaugurated on October 1, 2000, the final stages of implementation, including the redistribution of workload, will require another year through FY 2002.

Improvements are Needed in Implementing the Debt Collection Cross-Servicing Program for Non-Tax Debt: Agencies are required to refer debts more than 180 days delinquent to the centralized cross-servicing program, which applies a variety of collection tools. In FY 2001, FMS implemented two more Federal payment types for offset and expanded the Continuous Levy (Offset) Program to include Federal salaries. FMS also improved monitoring of agencies' plans for referral of delinquent debt for cross-servicing and worked with private collection agencies to address their concerns with the distribution of delinquent debt to them for collection.

PARTNERS

Major parts of many IRS strategies are accomplished through partnerships with state governments, the Department of Justice Tax Division, practitioners and other industry and local groups who are in regular contact with taxpayers. FMS requested that OMB develop audit guidelines for eligible debts which agencies exclude from Debt Collection Improvement Act cross-servicing provisions. In addition, FMS works with private collection agencies in collection of delinquent debt.

NEXT STEPS

To collect unpaid taxes in FY 2002, IRS strategies continue efforts to stabilize the traditional compliance activities in the near term, while future strategies will address working through business systems modernization for more fundamental improvements. In FY 2002, IRS plans to complete hiring of traditional enforcement personnel in collection and examination to improve productivity.

Future efforts in the EITC fraud area will focus on system changes to implement further validation and compliance requirements.

To increase collection of delinquent debt collection, FMS is expanding its payments offset program to include new payment types and additional sources of delinquent debt. FMS will incorporate into its program Non-Treasury Disbursing Offices vendor payments and levy Social Security Benefits Payments. FMS is currently building a new cross-servicing system to better meet the needs of Federal program agencies and private collection agencies.

F5: Cost-Effectively Finance the Government's Operations

RESULTS

Over the past year, Treasury was able to achieve this goal through refinancing operations, which reduced interest expense, and improvements to auction processes, which ensured that the Treasury's financing operations remained competitive and cost-effective.

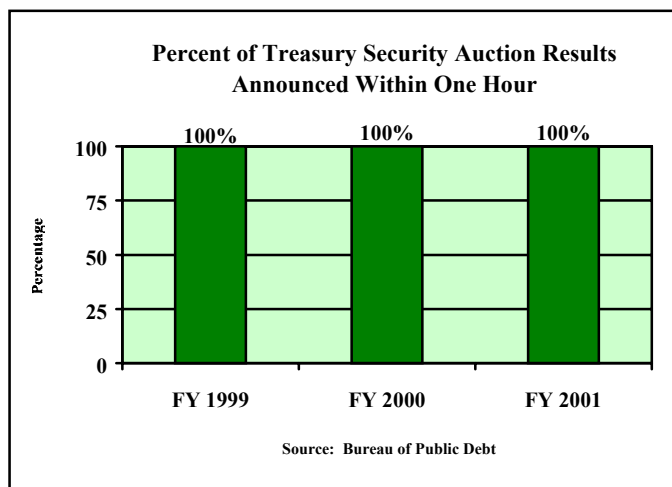
STRATEGIC GOAL OVERVIEW

Treasury finances the government's operations. The goal is to sell, service, and pay the Federal debt in a manner that minimizes the long-term cost of borrowings, provides sound cash management, and promotes efficient capital markets. Doing so in the most effective manner allows the government to provide government services and entitlement programs to the public.

STRATEGIES/KEY MEASURES

The operational components of financing the government's operations include the auction and issue of Treasury marketable debt securities, the buyback of Treasury marketable securities, and oversight of the commercial book-entry system. That system holds 98% of all Treasury securities that are issued and held in book-entry form, currently about \$3.2 trillion.

Treasury Securities Auctions. BPD conducts approximately 160 auctions a year, and issues more than \$2 trillion of securities to finance government operations. To maintain an efficient market for Treasury securities and to minimize uncertainty in these markets, it is crucial that securities auctions are completed and results announced as quickly as possible. The goal to announce auction results within one hour of close of the auction 95 percent of the time was exceeded in 2001; 100% was attained. Starting in FY 2002, the goal will be further tightened to 25 minutes.



Buy-back Program. The buyback program is a debt management tool that has allowed the Treasury to better manage our cash position and reduce borrowing costs over time. Securities with higher interest rates are retired in favor of issuances of shorter-term securities with lower rates. Last year, Treasury conducted 22 buyback operations that bought back approximately \$30 billion.

PARTNERS

Treasury and the Federal Reserve work to reduce book-entry costs on the National Bank Entry System.

NEXT STEPS

Having re-engineered the auction process and thereby reducing the time to release the auction results to 30 minutes, the goal is to ultimately produce and post the results on the Internet within six minutes of the auction close. Attaining this goal and meeting it consistently will lower market risk for our large investors and result in lower borrowing costs for the Treasury. As the security industry consolidates, the number of direct competitive auction bidders has been reduced. Work will continue to further expand direct bidding to help make Treasury's auctions more competitive.

F6: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

RESULTS

Both the Mint and BEP made considerable progress toward this goal. The Mint met its target for controllable costs to produce circulating coinage, and the Mint and Federal Reserve seasonal inventory targets were met 100% of the time. The Mint's Federal Reserve Board Customer Satisfaction Survey results exceeded the target by 2%. The survey results and the reliable coin inventory confirmed achieving a satisfactory level of integrity and efficiency.

BEP achieved ISO 9001 certification (an internationally-recognized standard for quality management systems) of its currency quality management systems in Washington, D.C., and Fort Worth, Texas. The Bureau's quality management systems met and/or exceeded rigorous international standards. This is indicative of Treasury's commitment to providing a consistently high-quality security product on which the public can rely.

The actual production cost of currency notes, which includes direct labor and materials and applied manufacturing overhead, was slightly more than one percent below target in 2001. This favorable result was due primarily to lower-than-anticipated spoilage brought about by the fine-tuning of currency manufacturing operations during the successful ISO 9001 quality certification effort.

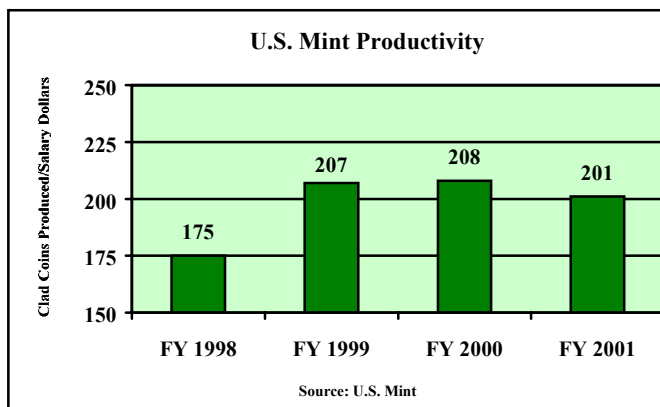
STRATEGIC GOAL OVERVIEW

Treasury production operations are managed similar to a private sector business model. Coin and currency are produced as ordered by the customer, the Federal Reserve System. Efficient operations result in security products that provide the best value to the Federal Reserve and ultimately to the American public. Coin and currency that are of consistently high quality, and produced and delivered under strict accountability controls, facilitate the efficient use of coin and currency in daily business transactions and ensures continued public confidence in the Nation's coin and currency.

STRATEGIES/KEY MEASURES

Coin

The Mint met targeted coin inventory levels each week. A seasonally adjusted inventory target was used since fluctuations in the demand for coins are somewhat predictable at set times during the year. Steps that had been taken to meet record demand levels (27.2 billion coins shipped in FY 2000) coupled with the decrease in the demand for coinage in FY 2001 facilitated the Mint's achievement of this goal.



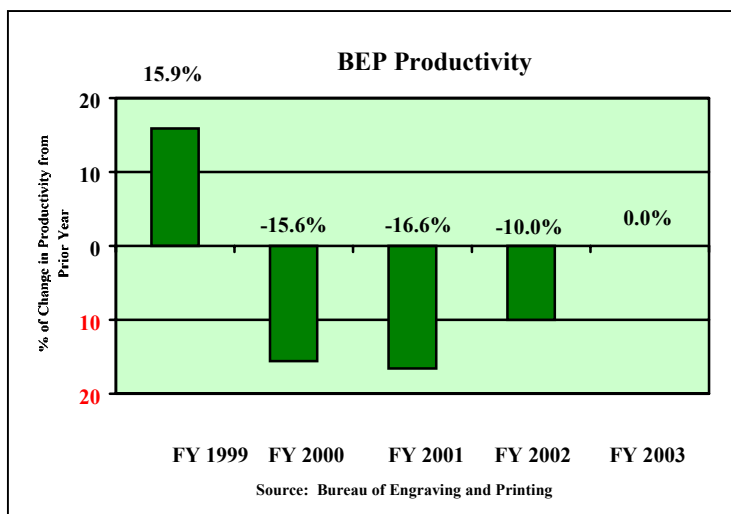
During FY 2001, the Mint experienced lower demand requiring production of 23.6 billion circulating coins compared with a record of 27.2 billion in FY 2000. The Mint produced 2001 clad coins per production payroll dollar in FY 2001, a decrease of 3% from FY 2000. The decrease is mainly a result of the slowing economy as demand of all circulating coinage contracted in FY 2001.

In FY 2002, the Mint will implement Total Productive Manufacturing – a process to enable a continuous and rapid improvement in manufacturing through the use of employee involvement and clear measures of performance. Total Productive Manufacturing focuses on maintaining safe and clean working environments, upgrading and standardizing equipment and processes, and employee involvement through training and team-based problem solving.

Currency

BEP is actively engaged in the development of a new design for the next generation of currency notes to be introduced into circulation as early as 2003. Production of the new series currency design requires a multi-million dollar capital investment in printing technology and support process. This technology will enable BEP to support the initiatives of the Advanced Counterfeit Deterrence Program as part of the Treasury's objective.

Overall productivity at BEP decreased by 16.6 percent due to a decrease in customer requirements from the previous year. The productivity decrease in currency was greater than planned due to a second reduction in the currency order during the year.



PROGRAM EVALUATIONS

In FY 2001, the Mint conducted several key program evaluations. The Building Assessments for Facilities resulted in a prioritized action plan to upgrade the Denver and Philadelphia Mints. The Equipment Life Cycle Analysis was performed on the coining equipment at Philadelphia and Denver. It assessed the costs to maintain and operate current coin presses compared with the maintenance and operation costs of the latest model presses.

For FY 2001, BEP focused on controlling costs. The Inspectors General for the Federal Reserve and the Postal Service reviewed the Bureau's performance against cost standards established for the manufacturing of currency and postage stamps and determined that the Bureau's manufacturing cost standards were reasonable.

PARTNERS

The Mint has been strengthening its partnership with the Federal Reserve Board (FRB). This partnership will continue to work together in FY 2002 to improve coin supply chain management from the point at which FRB places coin orders to the delivery of coin to the FRB banks and branches.

BEP is an active member of an inter-agency Counterfeit Deterrence Steering Committee composed of the Bureau, U.S. Treasury policy officials, the Secret Service and the Federal Reserve. Working through the Committee, the BEP has partnered with the Secret Service and Federal Reserve to devise a long-term counterfeit deterrence strategy for the U.S. currency that features regular redesign of the currency note that fits with the enforcement and detection capabilities of the Federal Reserve and the Secret Service. BEP also partners with the private sector and specifically with companies and organizations whose participation in day-to-day commercial activity is dependent upon processing cash transactions through currency-accepting machinery.

NEXT STEPS

By 2005, the Mint intends to reduce the conversion cost of circulating coinage by 15 percent (excluding metal costs). The Mint endeavors to meet FRB circulating coin inventory requirements. Coin supplies that meet the FRB's requirements facilitate the efficient use of coins in daily business transactions. BEP's principal focus in 2002 will be the continued development of the next generation (NexGen) of currency designs incorporating advanced counterfeit deterrent features. The Bureau also plans to expand the certification of its currency quality management system under the ISO 9001 standard to include ink production, roller manufacturing and plate making/engraving.